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SUBJECT: RUSSIAN ENERGY: KOVYKTA UPDATE

REF: MOSCOW 2563

Classified By: Econ M/C Quanrud. Reasons 1.4 (b/d).

¶1. (C) June 1 has come and gone in Russia without the withdrawal of Russia Petroleum's license to develop the giant Kovykta gas field. Interfax reports that Rosnedra, the GOR agency charged with license compliance oversight, has prepared a draft protocol confirming that Russia Petroleum -- the holder of the license and majority-owned by TNK-BP -- did violate the license terms. The draft recommends license revocation. Rosnedra postponed making a decision about the license for another two weeks.

¶2. (C) Senior TNK-BP management tells that the GOR backed away from doing anything as precipitous as a license withdrawal, especially in light of next week's G-8 Summit in Germany and this year's high-profile Russian Economic Forum in St. Petersburg immediately following the G-8. TNK-BP believes that the fear of bad publicity has likely bought the company a few weeks breathing room.

¶3. (C) Beyond the battle over the license, TNK-BP and its partners in the field are still actively working on a deal that will leave them with a 49 percent stake in the venture, ceding 51 percent to Gazprom. It appears that the May 31 meeting between Gazprom CEO Alexey Miller and BP Chairman Tony Hayward brought the two sides closer, but we understand that haggling continues over Gazprom's buy-in price. There are rumors that President Putin would like to see this deal closed, and on terms that do not cause a public outcry, before he gets on the plane for Germany next Tuesday.

¶4. (C) TNK-BP believes that the terms of this deal (which are better than the firm had expected) are being driven by Gazprom's desire to push back on the growing perception within the Kremlin (including Putin) that Gazprom is operationally ineffective. At a meeting with oil executives this week in the Kremlin, Putin is reported to have pointedly called into question Gazprom CEO Miller's contribution in the discussion, to the surprise of many of the participants.

¶5. (C) Comment. The pace and level of the discussions surrounding the Kovykta field suggest that a deal may indeed be at hand, and that real money is being put on the table. Likewise, it appears that the question of the license revocation may be on hold for a while. End Comment.

